

**LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS**

Des Plaines, Illinois

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2020 and 2019

**LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Lutheran Social Services of Illinois
Des Plaines, Illinois

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lutheran Social Services of Illinois (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, cash flows and functional expenses and directly related program services revenue for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Organization adopted Accounting Standards Update No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, and Accounting Standards Update No. 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Our opinion is not modified with respect to these matters.

Other Matters

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2020 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Baker Tilly US, LLP (Formerly known as Baker Tilly Virchow Krause, LLP)
Milwaukee, Wisconsin
November 10, 2020

**LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of June 30, 2020 and 2019

ASSETS		
	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 14,763,763	\$ 1,897,935
Accounts receivable, net of allowance for doubtful accounts of \$2,137,095 and \$2,357,809 at June 30, 2020 and 2019, respectively	11,226,926	11,212,015
Unconditional promises to give, net of allowance for doubtful promises of \$0 at June 30, 2020 and 2019	38,500	125,880
Prepaid expenses and other assets	294,283	191,953
Short-term investments	5,784,936	5,224,322
Short-term investments - pledged as collateral	-	11,004,119
Total Current Assets	32,108,408	29,656,224
INVESTMENTS HELD FOR LONG-TERM PURPOSES	2,585,576	2,519,171
PROPERTY AND EQUIPMENT		
Land	4,220,672	4,187,672
Buildings and other improvements	108,236,219	107,705,800
Furniture and equipment	17,631,226	22,787,311
Construction in progress	566,459	194,957
Property and Equipment, at cost	130,654,576	134,875,740
Less allowance for depreciation	(70,795,672)	(73,219,442)
Property and Equipment, net	59,858,904	61,656,298
OTHER ASSETS		
Escrow deposit accounts	8,391,804	9,114,940
Tenant deposits in trust	79,676	98,614
Cash surrender value of life insurance contracts	252,766	277,311
Total Other Assets	8,724,246	9,490,865
TOTAL ASSETS	\$ 103,277,134	\$ 103,322,558

See accompanying notes to consolidated financial statements.

**LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)
As of June 30, 2020 and 2019

	2020	2019
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit	\$ -	\$ 9,303,189
Refundable advance	9,985,367	-
Current maturities of long-term debt:		
Mortgages payable	279,549	370,417
Capital lease obligations	258,611	253,955
Accounts payable and other accrued expenses	5,057,924	4,817,625
Cash advances for special purposes	975,309	191,540
Accrued interest payable	36,230	16,119
Accrued salaries and wages	4,504,868	3,918,484
Accrued and withheld taxes	935,907	728,913
Deferred gain on sale of property - current	143,439	143,439
Deferred lease incentive - current	41,744	5,000
Residents' special deposits	42,258	31,573
Total Current Liabilities	22,261,206	19,780,254
LONG-TERM LIABILITIES		
Long-term debt, less current maturities above:		
Mortgages payable	11,395,810	11,627,046
Capital lease obligations	4,043,295	4,301,994
Conditional capital advance agreements	39,472,662	39,472,662
Conditional assisted living conversion grant agreement	3,602,995	3,602,995
Conditional federal home loan agreements	66,004	66,004
Deferred gain on sale of property	1,470,244	1,613,683
Deferred lease incentive	427,873	75,000
Liability for split interest gift arrangements	500,114	532,438
Liability for pension benefits	3,862,282	4,315,206
Other long-term liabilities	1,025,976	941,094
Tenant security deposits held in trust	368,821	380,505
Due to HUD - residual receipts	353,152	590,511
Total Long-Term Liabilities	66,589,228	67,519,138
Total Liabilities	88,850,434	87,299,392
NET ASSETS		
Without donor restrictions	8,235,351	9,813,906
With donor restrictions	6,191,349	6,209,260
Total Net Assets	14,426,700	16,023,166
TOTAL LIABILITIES AND NET ASSETS	\$ 103,277,134	\$ 103,322,558

See accompanying notes to consolidated financial statements.

**LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS**

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Public Support:			
Lutheran church support	\$ 444,872	\$ -	\$ 444,872
United Way	30,312	38,500	68,812
Contributions	3,291,620	157,980	3,449,600
Bequests	1,545,961	-	1,545,961
Total Public Support	<u>5,312,765</u>	<u>196,480</u>	<u>5,509,245</u>
Other Revenue:			
Fees and grants from government agencies	63,911,332	-	63,911,332
Program service fees	19,224,082	-	19,224,082
Public sales	9,326	-	9,326
Rents and investment return, net	518,918	65,924	584,842
Gain on disposal of property and equipment	117,065	-	117,065
Miscellaneous	481,813	-	481,813
Total Other Revenue	<u>84,262,536</u>	<u>65,924</u>	<u>84,328,460</u>
Net assets released from restrictions	<u>237,398</u>	<u>(237,398)</u>	<u>-</u>
Total Public Support and Revenue	<u>89,812,699</u>	<u>25,006</u>	<u>89,837,705</u>
EXPENSES			
Program Services	<u>81,485,054</u>	<u>-</u>	<u>81,485,054</u>
Supporting Services:			
Management and general	7,464,693	-	7,464,693
Fundraising	1,694,429	-	1,694,429
Total Supporting Services	<u>9,159,122</u>	<u>-</u>	<u>9,159,122</u>
Total Program and Supporting Services Expense	<u>90,644,176</u>	<u>-</u>	<u>90,644,176</u>
CHANGE IN NET ASSETS BEFORE OTHER ITEMS	(831,477)	25,006	(806,471)
OTHER ITEMS			
Actuarial loss on annuity obligations	-	(42,917)	(42,917)
Increase in actuarial pension costs	<u>(747,078)</u>	<u>-</u>	<u>(747,078)</u>
CHANGE IN NET ASSETS	(1,578,555)	(17,911)	(1,596,466)
NET ASSETS - Beginning of Year	<u>9,813,906</u>	<u>6,209,260</u>	<u>16,023,166</u>
NET ASSETS - END OF YEAR	<u>\$ 8,235,351</u>	<u>\$ 6,191,349</u>	<u>\$ 14,426,700</u>

See accompanying notes to consolidated financial statements.

**LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS**

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Public Support:			
Lutheran church support	\$ 424,322	\$ 3,550	\$ 427,872
United Way	18,706	60,615	79,321
Contributions	3,313,154	34,556	3,347,710
Bequests	469,784	-	469,784
Total Public Support	<u>4,225,966</u>	<u>98,721</u>	<u>4,324,687</u>
Other Revenue:			
Fees and grants from government agencies	57,915,063	-	57,915,063
Program service fees	17,978,961	-	17,978,961
Grant revenue from deferred grant agreements	1,833,276	-	1,833,276
Public sales	15,363	-	15,363
Rents and investment return, net	819,417	72,315	891,732
Gain on disposal of property and equipment	256,837	-	256,837
Miscellaneous	186,310	-	186,310
Total Other Revenue	<u>79,005,227</u>	<u>72,315</u>	<u>79,077,542</u>
Net assets released from restrictions	<u>785,377</u>	<u>(785,377)</u>	<u>-</u>
Total Public Support and Revenue	<u>84,016,570</u>	<u>(614,341)</u>	<u>83,402,229</u>
EXPENSES			
Program Services	<u>74,843,804</u>	<u>-</u>	<u>74,843,804</u>
Supporting Services:			
Management and general	6,341,952	-	6,341,952
Fundraising	1,548,581	-	1,548,581
Total Supporting Services	<u>7,890,533</u>	<u>-</u>	<u>7,890,533</u>
Total Program and Supporting Services Expense	<u>82,734,337</u>	<u>-</u>	<u>82,734,337</u>
CHANGE IN NET ASSETS BEFORE OTHER ITEMS	1,282,233	(614,341)	667,892
OTHER ITEMS			
Actuarial gain on annuity obligations	-	21,240	21,240
Increase in actuarial pension costs	<u>(1,181,775)</u>	<u>-</u>	<u>(1,181,775)</u>
CHANGE IN NET ASSETS	100,458	(593,101)	(492,643)
NET ASSETS - Beginning of Year	<u>9,713,448</u>	<u>6,802,361</u>	<u>16,515,809</u>
NET ASSETS - END OF YEAR	<u>\$ 9,813,906</u>	<u>\$ 6,209,260</u>	<u>\$ 16,023,166</u>

See accompanying notes to consolidated financial statements.

**LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS**

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (1,596,466)	\$ (492,643)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	4,381,413	4,537,185
Actuarial loss (gain) on annuity obligations	42,917	(21,240)
Amortization of deferred grant revenue from various agreements	-	(1,833,276)
Amortization of prepaid debt financing costs	13,404	13,404
Gain on disposal of property and equipment	(117,065)	(256,837)
Reinvestment of investment income	(164,419)	(164,417)
Net realized and unrealized gain on investments	(297,008)	(246,100)
Increase in cash surrender value of life insurance	(11,862)	(18,200)
Increase in actuarial pension costs	747,078	1,181,775
Provision for bad debt	61,504	382,930
Changes in assets and liabilities:		
Accounts receivable	(76,415)	195,103
Unconditional promises to give	87,380	131,315
Prepaid expenses and other assets	(102,330)	711,177
Refundable advance	9,985,367	-
Accounts payable and other accrued expenses	254,427	(925,779)
Other current liabilities	1,576,635	295,298
Liability for pension benefits	(1,200,002)	(7,095,541)
Other long-term liabilities	73,198	408,433
Due to HUD - residual receipts	(237,359)	(15,309)
Net Cash Flows from Operating Activities	13,420,397	(3,212,722)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(2,203,596)	(2,206,224)
Purchases of investments	(2,760,055)	(1,537,981)
Proceeds from sales of investments	13,596,382	3,608,160
Proceeds from surrendering life insurance policies	36,407	26,250
Net Cash Flows from Investing Activities	8,669,138	(109,795)

See accompanying notes to consolidated financial statements.

**LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS**

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
Years Ended June 30, 2020 and 2019

	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from split interest agreements relinquished	\$ 2,200	\$ 69,091
Payments on split interest gift arrangements	(75,241)	(77,903)
Repayment of other debt	(589,551)	(998,824)
Net draws (payments) on line of credit	(9,303,189)	5,304,189
Net Cash Flows from Financing Activities	(9,965,781)	4,296,553
NET CHANGE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	12,123,754	974,036
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH - BEGINNING OF YEAR	11,111,489	10,137,453
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR	\$ 23,235,243	\$ 11,111,489
 Reconciliation of Cash and Cash Equivalents and Restricted Cash to the Statements of Financial Position:		
	2020	2019
Cash and cash equivalents	\$ 14,763,763	\$ 1,897,935
Escrow deposits	8,391,804	9,114,940
Tenant deposits accounts in trust	79,676	98,614
Total cash and cash equivalents and restricted cash	\$ 23,235,243	\$ 11,111,489
 Supplemental cash flow disclosures		
Cash paid for interest	\$ 868,427	\$ 985,458
 Noncash investing and financing activities		
Property and equipment purchases financed by capital leases and accounts payable	\$ -	\$ 2,320,983
Leasehold improvements acquired with tenant lease incentive	\$ 420,925	\$ 80,000

See accompanying notes to consolidated financial statements.

LUTHERAN SOCIAL SERVICES OF ILLINOIS AND SUBSIDIARY CORPORATIONS

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES AND DIRECTLY RELATED PROGRAM SERVICES REVENUE
For the Year Ended June 30, 2020

	2020						
	PROGRAM SERVICES						
	Children's Community Services	Home and Community Services			Housing Services	Other Operating	Matins, Inc.
	Behavioral Health Services	Developmental Disabilities Services	Senior Community Services				
FUNCTIONAL EXPENSES							
Salaries	\$ 17,958,655	\$ 13,615,727	\$ 3,681,532	\$ 537,710	\$ 4,740,093	\$ -	\$ -
Employee health and retirement benefits, payroll taxes, etc.	4,228,220	2,876,904	783,602	89,457	1,273,600	-	-
Total salaries and related expenses	<u>22,186,875</u>	<u>16,492,631</u>	<u>4,465,134</u>	<u>627,167</u>	<u>6,013,693</u>	-	-
Professional fees and contract service payments	7,998,103	1,037,162	301,320	796	450,740	-	15
Supplies	147,583	593,247	241,949	6,867	410,147	-	-
Communications	420,238	451,357	68,257	4,412	431,332	-	-
Occupancy	1,802,929	944,679	563,332	4,356	4,731,976	-	-
Advertising and printing	49,203	2,647	710	-	4,762	-	-
Local transportation	1,657,981	279,809	264,600	6,865	120,757	-	-
Meetings, seminars and education	47,004	26,125	11,509	679	8,895	-	-
Specific assistance to individuals	932,622	145,036	51,936	-	43,586	-	-
Elderly and congregate expenses	-	-	-	-	139,020	-	-
Equipment rental and maintenance	234,640	454,376	36,779	12,607	55,148	-	-
Miscellaneous and other operating	27,340	58,240	154,861	2,645	1,671,638	-	-
Interest expense	97,743	106,395	-	3,734	552,178	-	-
Total functional expenses	<u>35,602,261</u>	<u>20,591,704</u>	<u>6,160,387</u>	<u>670,128</u>	<u>14,633,872</u>	-	15
Depreciation	285,550	286,132	108,550	13,889	2,867,474	-	-
Total Program and Supporting Services Expense	<u>\$ 35,887,811</u>	<u>\$ 20,877,836</u>	<u>\$ 6,268,937</u>	<u>\$ 684,017</u>	<u>\$ 17,501,346</u>	\$ -	\$ 15
DIRECTLY RELATED PROGRAM SERVICES REVENUE							
Fees and grants from governmental agencies	\$ 39,784,505	\$ 9,790,808	\$ 5,919,981	\$ 345,513	\$ 8,070,525	\$ -	\$ -
Program service fees	444,393	9,816,356	720,872	198,857	8,043,604	-	-
Public sales	3,343	-	-	-	5,983	-	-
Rents and investment return, net	13,777	108,821	-	-	85,590	36,430	-
Loss on disposal of property and equipment, net	(4,864)	-	-	-	(21,478)	-	-
Miscellaneous	14,789	27,941	24,668	82,554	4,252	290,634	-
Total Directly Related Program Services Revenue	<u>\$ 40,255,943</u>	<u>\$ 19,743,926</u>	<u>\$ 6,665,521</u>	<u>\$ 626,924</u>	<u>\$ 16,188,476</u>	<u>\$ 327,064</u>	<u>\$ -</u>

See accompanying notes to consolidated financial statements.

LUTHERAN SOCIAL SERVICES OF ILLINOIS AND SUBSIDIARY CORPORATIONS

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES AND DIRECTLY RELATED PROGRAM SERVICES REVENUE (continued)
For the Year Ended June 30, 2020

	2020						
	PROGRAM SERVICES			SUPPORTING SERVICES			
	Vesper Mgmt Corporation	Subtotal Program Services	Management and General	Resource Development	The Cornerstone Foundation, Inc.	Subtotal Fundraising	Total
FUNCTIONAL EXPENSES							
Salaries	\$ -	\$ 40,533,717	\$ 3,726,268	\$ 964,355	\$ -	\$ 964,355	\$ 45,224,340
Employee health and retirement benefits, payroll taxes, etc.	-	9,251,783	638,855	173,036	-	173,036	10,063,674
Total salaries and related expenses	-	49,785,500	4,365,123	1,137,391	-	1,137,391	55,288,014
Professional fees and contract service payments	30	9,788,166	524,713	202,626	55,812	258,438	10,571,317
Supplies	-	1,399,793	85,579	58,954	-	58,954	1,544,326
Communications	-	1,375,596	132,212	10,430	95	10,525	1,518,333
Occupancy	-	8,047,272	500,886	25,272	-	25,272	8,573,430
Advertising and printing	-	57,322	314,683	95,641	45	95,686	467,691
Local transportation	-	2,330,012	58,387	18,882	1,255	20,137	2,408,536
Meetings, seminars and education	-	94,212	116,753	3,057	4,225	7,282	218,247
Specific assistance to individuals	-	1,173,180	-	15	-	15	1,173,195
Elderly and congregate expenses	-	139,020	-	-	-	-	139,020
Equipment rental and maintenance	-	793,550	358,209	4,522	-	4,522	1,156,281
Miscellaneous and other operating	-	1,914,724	355,386	30,841	1,480	32,321	2,302,431
Interest expense	-	760,050	127,378	14,514	-	14,514	901,942
Total functional expenses	30	77,658,397	6,939,309	1,602,145	62,912	1,665,057	86,262,763
Depreciation	265,062	3,826,657	525,384	29,372	-	29,372	4,381,413
Total Program and Supporting Services Expenses	<u>\$ 265,092</u>	<u>\$ 81,485,054</u>	<u>\$ 7,464,693</u>	<u>\$ 1,631,517</u>	<u>\$ 62,912</u>	<u>\$ 1,694,429</u>	<u>\$ 90,644,176</u>
DIRECTLY RELATED PROGRAM SERVICES REVENUE							
Fees and grants from governmental agencies	\$ -	\$ 63,911,332	\$ -	\$ -	\$ -	\$ -	\$ 63,911,332
Program service fees	-	19,224,082	-	-	-	-	19,224,082
Public sales	-	9,326	-	-	-	-	9,326
Rents and investment return, net	-	244,618	247	-	339,977	339,977	584,842
Gain (loss) on disposal of property and equipment, net	-	(26,342)	143,407	-	-	-	117,065
Miscellaneous	-	444,838	36,975	-	-	-	481,813
Total Directly Related Program Services Revenue	<u>\$ -</u>	<u>\$ 83,807,854</u>	<u>\$ 180,629</u>	<u>\$ -</u>	<u>\$ 339,977</u>	<u>\$ 339,977</u>	<u>\$ 84,328,460</u>

See accompanying notes to consolidated financial statements.

LUTHERAN SOCIAL SERVICES OF ILLINOIS AND SUBSIDIARY CORPORATIONS

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES AND DIRECTLY RELATED PROGRAM SERVICES REVENUE (continued)
For the Year Ended June 30, 2019

	2019						
	PROGRAM SERVICES						
	Children's Community Services	Home and Community Services			Housing Services	Other Operating	Matins, Inc.
	Behavioral Health Services	Developmental Disabilities Services	Senior Community Services				
FUNCTIONAL EXPENSES							
Salaries	\$ 16,373,217	\$ 11,420,702	\$ 2,986,121	\$ 465,411	\$ 4,377,061	\$ -	\$ -
Employee health and retirement benefits, payroll taxes, etc.	3,612,800	2,350,356	537,059	79,437	1,130,227	-	-
Total salaries and related expenses	<u>19,986,017</u>	<u>13,771,058</u>	<u>3,523,180</u>	<u>544,848</u>	<u>5,507,288</u>	-	-
Professional fees and contract service payments	7,876,879	1,177,111	675,051	807	388,138	-	1,592
Supplies	220,655	570,681	250,724	755	370,947	-	-
Communications	420,573	381,567	71,241	4,028	401,415	-	-
Occupancy	2,175,442	863,098	378,735	1,494	4,200,170	-	-
Advertising and printing	5,476	3,609	215	895	4,483	-	-
Local transportation	1,944,041	292,133	287,940	24,115	123,923	-	-
Meetings, seminars and education	33,605	49,909	6,743	810	18,115	-	-
Specific assistance to individuals	761,620	67,918	9,488	-	4,492	-	-
Elderly and congregate expenses	-	-	-	-	163,704	-	-
Equipment rental and maintenance	195,314	346,030	25,018	11,424	140,434	-	-
Miscellaneous and other operating	16,253	52,001	123,758	2,448	1,585,933	-	-
Interest expense	134,145	199,129	-	1,351	557,818	-	-
Total functional expenses	<u>33,770,020</u>	<u>17,774,244</u>	<u>5,352,093</u>	<u>592,975</u>	<u>13,466,860</u>	-	1,592
Depreciation	283,183	287,844	100,844	32,421	2,838,415	-	-
Total Program and Supporting Services Expenses	<u>\$ 34,053,203</u>	<u>\$ 18,062,088</u>	<u>\$ 5,452,937</u>	<u>\$ 625,396</u>	<u>\$ 16,305,275</u>	<u>\$ -</u>	<u>\$ 1,592</u>
DIRECTLY RELATED PROGRAM SERVICES REVENUE							
Fees and grants from governmental agencies	\$ 36,796,444	\$ 7,667,641	\$ 5,067,001	\$ 316,787	\$ 8,067,190	\$ -	\$ -
Program service fees	379,832	8,957,089	830,023	189,918	7,622,099	-	-
Grant revenue from deferred grant agreements	-	-	-	-	1,833,276	-	-
Public sales	5,965	-	-	-	9,398	-	-
Rents and investment return, net	13,547	26	-	-	435,154	47,393	-
Loss on disposal of property and equipment, net	(434)	-	-	-	(6,056)	-	-
Miscellaneous	1,823	65,757	9,907	-	78,922	-	-
Total Directly Related Program Services Revenue	<u>\$ 37,197,177</u>	<u>\$ 16,690,513</u>	<u>\$ 5,906,931</u>	<u>\$ 506,705</u>	<u>\$ 18,039,983</u>	<u>\$ 47,393</u>	<u>\$ -</u>

See accompanying notes to consolidated financial statements.

LUTHERAN SOCIAL SERVICES OF ILLINOIS AND SUBSIDIARY CORPORATIONS

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES AND DIRECTLY RELATED PROGRAM SERVICES REVENUE (continued)
For the Year Ended June 30, 2019

	2019						Total
	PROGRAM SERVICES		SUPPORTING SERVICES				
	Vesper Mgmt Corporation	Subtotal Program Services	Management and General	Resource Development	The Cornerstone Foundation, Inc.	Subtotal Fundraising	
FUNCTIONAL EXPENSES							
Salaries	\$ -	\$ 35,622,512	\$ 2,831,042	\$ 906,251	\$ -	\$ 906,251	\$ 39,359,805
Employee health and retirement benefits, payroll taxes, etc.	-	7,709,879	648,621	163,616	-	163,616	8,522,116
Total salaries and related expenses	-	43,332,391	3,479,663	1,069,867	-	1,069,867	47,881,921
Professional fees and contract service payments	-	10,119,578	285,801	206,787	42,242	249,029	10,654,408
Supplies	-	1,413,762	66,372	30,224	-	30,224	1,510,358
Communications	-	1,278,824	148,150	15,939	120	16,059	1,443,033
Occupancy	-	7,618,939	475,135	7,640	-	7,640	8,101,714
Advertising and printing	-	14,678	305,639	81,227	-	81,227	401,544
Local transportation	-	2,672,152	65,257	24,353	943	25,296	2,762,705
Meetings, seminars and education	-	109,182	64,569	4,175	2,455	6,630	180,381
Specific assistance to individuals	-	843,518	-	-	-	-	843,518
Elderly and congregate expenses	-	163,704	-	-	-	-	163,704
Equipment rental and maintenance	-	718,220	404,610	707	-	707	1,123,537
Miscellaneous and other operating	-	1,780,393	291,403	57,836	2,124	59,960	2,131,756
Interest expense	-	892,443	106,130	-	-	-	998,573
Total functional expenses	-	70,957,784	5,692,729	1,498,755	47,884	1,546,639	78,197,152
Depreciation	343,313	3,886,020	649,223	1,942	-	1,942	4,537,185
Total Program and Supporting Services Expenses	<u>\$ 343,313</u>	<u>\$ 74,843,804</u>	<u>\$ 6,341,952</u>	<u>\$ 1,500,697</u>	<u>\$ 47,884</u>	<u>\$ 1,548,581</u>	<u>\$ 82,734,337</u>
DIRECTLY RELATED PROGRAM SERVICES REVENUE							
Fees and grants from governmental agencies	\$ -	\$ 57,915,063	\$ -	\$ -	\$ -	\$ -	\$ 57,915,063
Program service fees	-	17,978,961	-	-	-	-	17,978,961
Grant revenue from deferred grant agreements	-	1,833,276	-	-	-	-	1,833,276
Public sales	-	15,363	-	-	-	-	15,363
Rents and investment return, net	-	496,120	(1,725)	-	397,337	397,337	891,732
Gain (loss) on disposal of property and equipment, net	-	(6,490)	263,327	-	-	-	256,837
Miscellaneous	-	156,409	29,901	-	-	-	186,310
Total Directly Related Program Services Revenue	<u>\$ -</u>	<u>\$ 78,388,702</u>	<u>\$ 291,503</u>	<u>\$ -</u>	<u>\$ 397,337</u>	<u>\$ 397,337</u>	<u>\$ 79,077,542</u>

See accompanying notes to consolidated financial statements.

LUTHERAN SOCIAL SERVICES OF ILLINOIS AND SUBSIDIARY CORPORATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2020 and 2019

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

Lutheran Social Services of Illinois ("LSSI"), including the subsidiary corporations included herein (the "Organization"), is a multi-functional social service organization which is the social ministry expression of the three Illinois Synods of the Evangelical Lutheran Church in America. It is a corporation organized under the laws of the State of Illinois pursuant to the provisions of the "General Not-For-Profit Corporation Act." It is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and is not a private foundation under Section 509(a)(2). The Organization receives a significant portion of its operating funds from public support, fees and grants from government agencies and program service fees. The Organization's fiscal year ends on June 30. Significant accounting policies followed by the Organization are presented below.

In accordance with authoritative accounting guidance related to reporting of related entities by not-for-profit organizations, twenty-one (21) affiliated not-for-profit corporations incorporated under the Illinois "General Not-For-Profit Corporation Act" are included as subsidiaries in the consolidated financial statements. These corporations are considered subsidiary corporations because LSSI has control over and an economic interest in these corporations. In addition, LSSI Rockford Property, Inc., which is a for-profit subsidiary, is also consolidated as the Organization owns 100 percent of that company. These subsidiary corporations are:

Assisi Homes-Downer Place, Inc.	Luther Center, Inc. **
Aurora Senior Housing, Inc.	Matins, Inc.
Batavia Council on Aging, Inc.	Northwest Chicago Group Homes, Inc.
The Cornerstone Foundation, Inc. ("Foundation")	Our Savior's Senior Housing
Deer Creek Manor, Inc.	Rochelle Senior Housing, Inc.
Dekalb Housing for the Handicapped, Inc.	Rolling Meadows Senior Living, Inc.
Forsberg Christian Retirement Center, Inc. ("Forsberg")*	Salem Village III, Inc.
Freeport Senior Housing, Inc.	Spring Ridge Housing for Seniors, Inc.
Freeport Senior Housing II, Inc.	Tabor Lutheran Senior Housing, Inc.
Fox Hill Senior Housing, Inc.	Vesper Management Corporation
LSSI Rockford Property, Inc.	Victorian Woods Senior Living

* In 2016, the building that Forsberg operated from was sold and Forsberg did not have any activity after transferring the net proceeds to the Organization.

** In April 2017, the building Luther Center, Inc. operated was sold and Luther Center, Inc. did not have any activity after transferring the net proceeds to the Organization.

LUTHERAN SOCIAL SERVICES OF ILLINOIS AND SUBSIDIARY CORPORATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2020 and 2019

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Nature of Activities (cont.)

Services that the Organization provides include:

Children's Community Services:

Child Care Services: child care and Head Start programs designed to develop students' social skills and school readiness.

Foster Care Services: foster care placement and case management for children who have been removed from their birth families due to abuse and/or neglect, to achieve permanency through reunification with families or through adoption.

Behavioral Health Services:

Counseling, mental health and crisis intervention, drug and alcohol treatment for youth and adults, and services for formerly incarcerated individuals.

Senior and Disability Services:

In-Home Services: Non-medical assistance to older adults.

Housing and Assisted Living: Affordable housing and assisted living for older adults. Residential housing for adults with developmental disabilities.

Consolidated Financial Statement Presentation

The accompanying consolidated financial statements include the accounts of the Organization. All significant transactions among these corporations have been eliminated.

Basis of Accounting

The consolidated financial statements have been prepared using the accrual basis of accounting.

Cash and Cash Equivalents and Restricted Cash

The Organization defines cash and cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less. Restricted cash includes escrow deposits accounts and tenant deposits in trust. The Organization does not have the ability to use these funds for operations without HUD approval due to contractual requirements or HUD imposed regulations.

Receivables

Accounts receivable are uncollateralized funding source obligations, which generally are payable within 30 days from the invoice or billing date. Accounts receivable are stated at the invoice amount.

Payments of accounts receivable are applied to the specific invoices identified on the funding source's remittance advice or, if unspecified, to the earliest unpaid invoices.

LUTHERAN SOCIAL SERVICES OF ILLINOIS AND SUBSIDIARY CORPORATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2020 and 2019

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Receivables (cont.)

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectibility of specific funding source accounts and the aging of accounts receivable. If actual write-offs are higher than the historical experience, management's estimates of the recoverability of amounts due to the Organization could be adversely affected. All accounts or portions thereof deemed to be uncollectible or require an excessive collection cost are written off to the allowance for doubtful accounts.

Unconditional Promises to Give

Unconditional promises to give are recognized as revenue in the period received and as assets or decreases in liabilities, depending on the form of the benefits to be received.

The carrying amount of unconditional promises to give is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. Amounts that are expected to be collected after one year have been discounted at the time the pledge is recorded. The allowance for uncollectible amounts is based on management's assessment of the collectibility of specific promises to give. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for doubtful promises to give. The Organization believes unconditional promises to give are fully collectible at June 30, 2020 and 2019 and no allowance has been established. All pledges receivable are collectible within one year from the statement of financial position date.

Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, whether received or made, are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. There were no conditional promises to give as of June 30, 2020.

Income Taxes

The Organization is recognized by the Internal Revenue Service as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code and, except for taxes pertaining to unrelated business income, is exempt from federal and state income taxes.

The Organization follows current accounting guidance which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business income. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes.

**LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2020 and 2019

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Income Taxes (cont.)

With few exceptions, the Organization is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for the years before 2016. The Organization is not currently under examination by any taxing jurisdiction. It is the Organization's policy to recognize interest and penalties related to unrecognized tax expense when paid.

LSSI Rockford Property, Inc. has a tax year ending December 31. During 2010, LSSI Rockford Property, Inc. completed a sale that was treated for income tax purposes as an installment sale. The deferred tax liability of \$520,475 was included in other long-term liabilities as of June 30, 2020 and 2019 in the consolidated statements of financial position.

Investments

Investments are generally recorded at fair value based upon quoted market prices, when available, or estimates of fair value with gains and losses, net of fees, included in the consolidated statements of activities. Donated securities are recorded at fair value on the date received or at an estimate of fair value when the fair value is not readily available. Investments in partnerships that the Organization does not control are recorded based on the equity method. The Organization considers money market funds held for investment purposes to be investments on the consolidated statements of financial position.

The Organization's external investment advisors are engaged to monitor and report on portfolio performance and to make recommendations to the Foundation's investment committee as to investment manager selection and or replacement, and asset allocations. Once those recommendations are approved, Organization management executes the necessary transactions to cause the investment portfolio to conform to the asset allocation percentages as approved. Monitoring and rebalancing of the investment portfolio is conducted on an on-going basis by management subject to the tolerances within the approved investment policy.

Property and Equipment

Property and equipment are stated at cost, if purchased, or fair value at the date of the gift, if donated. All acquisitions of property and equipment generally in excess of \$1,000 and all expenditures for repairs, maintenance, improvements and betterments that materially prolong the useful lives of assets are capitalized. Maintenance, repairs, and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in the change in net assets.

Property and equipment are depreciated using the straight-line method over their estimated useful lives as follows:

Buildings	25 - 40 years
Other improvements	5 - 25 years
Furniture and equipment	3 - 7 years

LUTHERAN SOCIAL SERVICES OF ILLINOIS AND SUBSIDIARY CORPORATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell. To date, there have been no such losses recorded due to impairment.

Sale and Lease-Back of Property

In September 2017, the Organization entered an agreement to sell one of its properties and lease that property from the purchaser through September 2024. The lease of the property met the criteria for capitalization and is included in property on the consolidated statements of financial position at June 30, 2020 and 2019. The capitalized cost, accumulated depreciation, future minimum lease payments and interest are included in Note 8.

The sale price was \$3,000,000 and resulted in a deferred gain of \$2,262,902 at the time of the sale. The gain is recognized in proportion to the amortization of the leased asset. During 2020 and 2019, \$143,439 and \$263,327 was recognized in gain on disposal of property on the consolidated statements of activities. The total remaining deferred gain of \$1,613,683 and \$1,757,122 is reported as a liability on the consolidated statements of financial position at June 30, 2020 and 2019, respectively.

In February 2019, the lease was amended to decrease the amount of space leased, extend the lease term, and adjust the lease payments. At the time of the amendment, the capitalized asset and related lease obligation were revalued to reflect the present value of the future minimum payments under the amended lease and a corresponding increase in the asset and liability was recorded of \$2,306,855. In addition to amending the lease terms, the Organization received a lease incentive of \$500,925 to be used for improvements of the leased property. Improvements of \$80,000 are included in construction in progress at June 30, 2019. The remainder of the lease incentive was used for construction and a leasehold improvement asset of \$500,925 was placed into service during 2020. A deferred lease incentive liability is reported in the consolidated financial statements. The deferred lease incentive is recognized straight-line over the life of the leased asset. The deferred lease incentive is \$469,617 and \$80,000 at June 30, 2020 and 2019, respectively.

Escrow Deposit Accounts

At June 30, 2020 and 2019, the Organization had restricted cash totaling \$8,391,804 and \$9,114,940, respectively, mainly related to replacement reserves, tenant security deposits, residual receipts and minimum capital investments required by the U.S. Department of Housing and Urban Development ("HUD"). HUD regulations require these funds be held in segregated accounts. HUD has provided guidance to the Organization on the repayment terms of residual receipts reserve balances. All amounts greater than \$250 per unit, totaling \$353,152 and \$590,511 at June 30, 2020 and 2019, respectively, are reflected as a liability.

LUTHERAN SOCIAL SERVICES OF ILLINOIS AND SUBSIDIARY CORPORATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2020 and 2019

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Advertising

Non-direct advertising and promotion costs are charged to management and general when incurred and for the years ended June 30, 2020 and 2019 the amounts included were \$104,133 and \$121,919, respectively.

Conditional Capital Advance and Assisted Living Conversion Grant Agreements

The deferred grant revenue from the capital advance and assisted living conversion grants agreements with HUD were being amortized over the terms of the agreements using the straight-line method through June 30, 2019. Effective July 1, 2019, the Organization adopted Accounting Standards Update ("ASU") No. 2018-08. As required by the standard, the Organization is no longer recognizing revenue over the term of the agreements and will recognize the remaining revenue at the time all conditions are met by the Organization.

Split Interest Gift Arrangements

The Organization has entered into split interest gift arrangements that are mainly comprised of gift annuities and charitable trusts. Gift annuities provide that the annuitants will receive payments for life. The payments will continue even if related assets have been exhausted. At the death of the annuitants, all remaining assets, if any, are directed in accordance with the related agreements.

Charitable trusts provide that the income beneficiaries will receive payments for life, so long as there are assets available in the trust. At the death of the income beneficiaries, all remaining assets are directed in accordance with the related agreements.

At June 30, 2020 and 2019, the Organization held investments of \$1,628,109 and \$1,645,844, respectively, associated with these split interest agreements, which are recorded as investments held for long-term purposes on the consolidated statements of financial position.

The liability for split interest gift arrangements represents the present value of these obligations due to the annuitants and income beneficiaries. The present value was calculated based on life expectancies using discount rates determined at the date of the gift that range from 1.8% to 10.6%.

Net Assets

The Organization presents its consolidated financial statements in accordance with current accounting guidance, under which the Organization is required to report information regarding its financial position and activities according to classes of net assets as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations or time restrictions. The Organization's Board of Directors has the ability to designate net assets without donor restrictions to be used by management for specific future projects or activities. These designations can be modified or removed by the Board of Directors at any time.

LUTHERAN SOCIAL SERVICES OF ILLINOIS AND SUBSIDIARY CORPORATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2020 and 2019

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Net Assets (cont.)

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that expire by passage of time, can be fulfilled and removed by actions of the Organization pursuant to those stipulations, or that they be maintained permanently by the Organization.

Distributions

The Organization's regulatory agreements with HUD stipulate among other things, that the Organization will not make distributions of assets or income to any of its officers or directors.

Support and Revenues

Program service fees are presented on the consolidated statements of activities net of billing adjustments.

The Organization receives a significant portion of its operating funds from grants and awards. Grants are recognized as revenue in the period barriers are overcome. Grants where the conditions and restrictions are met simultaneously are presented as without donor restrictions on the statements of activities.

The Organization recognizes unconditional contributions received, including unconditional promises to give, as revenue in the period the promises are received at their fair values. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are recognized when they become unconditional, that is, when the conditions are substantially met. As of June 30, 2020, the Organization has one conditional contribution which is reflected as a refundable advance on the consolidated statements of financial position (see Note 7).

The Organization receives contributions through unconditional promises to give, bequests, life insurance premium payments, split interest gift arrangements and outright cash gifts. Contributions are classified as with donor restrictions or without donor restrictions based on donor instructions. Split interest gift arrangement receipts are classified partially as contributions and partially as a liability for the present value of the obligation. Upon the death of the annuitants or income beneficiaries, the remaining amount is classified as with donor restrictions or without donor restrictions based on stipulations of the donor.

Contributions that are restricted by the donor are reported as contributions in net assets with donor restrictions. When a restriction expires, the net assets with donor restrictions are reclassified to net assets without donor restrictions.

Investment income is presented net of fees. Investment income and realized and unrealized gains (losses) resulting from contributions are reported as net assets with donor restrictions or net assets without donor restrictions, as directed by the donor. Investment income and realized and unrealized gains (losses) restricted by a donor are reported as increases (decreases) in net assets with donor restrictions and released when the restrictions are met.

LUTHERAN SOCIAL SERVICES OF ILLINOIS AND SUBSIDIARY CORPORATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2020 and 2019

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Donated Services, Materials and Property

The Organization uses the services of volunteers who contribute their time and materials to provide services to the various programs. Volunteer hours utilized in 2020 and 2019 are not reflected in the consolidated financial statements as they generally do not require specialized skills.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as support with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service.

Functional Expense Allocation

Directly identifiable expenses are charged to program services, management and general, and fundraising. Salaries are allocated based on time and effort. Certain employee health and retirement benefits are allocated based on number of employees and direct labor costs. Occupancy is allocated based on square footage. Interest expense that is not directly charged is allocated based on square footage. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Operations

The Organization's operating revenues and expenses include all activities that are an integral part of its programs and supporting activities. The measure of operations excludes actuarial gains or losses on annuity obligations and increases or decreases in actuarial pension costs on the consolidated statements of activities, because management does not consider them integral to its operations.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

For comparability, certain 2019 amounts have been reclassified to conform with classifications adopted in 2020. The reclassifications have no effect on reported amounts of net assets or change in net assets.

**LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2020 and 2019

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Liquidity and Availability of Resources

The following reflects the Organization's financial assets as of June 30, 2020 and 2019, reduced by amounts not available for cash needs within one year for general use because of contractual or donor-imposed restrictions.

	<u>2020</u>	<u>2019</u>
Total assets, at year-end	\$ 103,277,134	\$ 103,322,558
Less non-financial assets		
Property and equipment, net	(59,858,904)	(61,656,298)
Prepaid expenses and other assets	(294,283)	(191,953)
Cash surrender value for life insurance	<u>(252,766)</u>	<u>(277,311)</u>
Financial assets, at year-end	42,871,181	41,196,996
Less those unavailable for general expenditures within one year, due to:		
Restricted by donor with time or purpose restrictions	(3,361,555)	(3,380,966)
Investments held in annuity trust	(1,628,109)	(1,645,844)
Permanently endowed funds	(2,829,794)	(2,828,294)
Investment pledged as collateral	-	(9,303,189)
Tenant deposits	(79,676)	(98,614)
Escrow deposits	(8,391,804)	(9,114,940)
Board designations:		
Quasi-endowment fund, primarily for long term investing	-	<u>(13,347,263)</u>
Amounts available	26,580,243	1,477,886
Board designated net assets	<u>-</u>	<u>13,347,263</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 26,580,243</u>	<u>\$ 14,825,149</u>

The Organization's liquidity management practice is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization is substantially supported by government contracts. The Organization has renewed all significant grants and contracts for the next fiscal year. Housing Services program subsidies and rent payments are received monthly. Children's Community Services receives funding monthly for children in care. Behavioral Health Services, Developmental Disabilities Services and Senior Community Services fees are billed for and paid on an ongoing basis throughout the year. Fundraising by the Organization and the Foundation is also used to support operations. As part of the Organization's liquidity management, the Organization invests cash in excess of daily requirements in short-term investments. In the event of an unanticipated liquidity need, the Organization has up to \$3,000,000 available on an additional line of credit (Note 6). Additionally, the Board of Directors can remove the designations on the quasi-endowment fund at any time to support operations and these designations were removed in fiscal year 2020 (Note 17).

**LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2020 and 2019

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Adopted Accounting Pronouncements

In 2020, the Organization adopted ASU No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU No. 2018-08"). The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in ASU No. 2018-08 should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Adopting ASU No. 2018-08 following the modified prospective basis had an impact on the consolidated statements of activities resulting in no longer recognizing grant revenue from capital advance agreements, assisted living conversion grant agreements, and federal home loan agreements on an annual basis. The adoption had an impact on the consolidated statements of financial position by maintaining the remaining portion of the agreements as conditional until all barriers have been met by the Organization.

In 2020, the Organization adopted ASU No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10)* ("ASU No. 2016-01"). The ASU modifies the guidance related to fair value disclosures of financial instruments. Adopting ASU No. 2016-01 did not have a significant impact on the consolidated financial statements of the Organization.

In 2020, the Organization adopted ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* ("ASU No. 2016-18"). The amendments in this update require that a statement of cash flows explains the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated statements of cash flows. The Organization has adjusted the presentation of these consolidated financial statements accordingly. ASU No. 2016-18 has been applied retrospectively to all periods presented.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2020 and 2019

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Adopted Accounting Pronouncements (cont.)

As a result of the adoption of ASU No. 2016-18, the consolidated statement of cash flows of the Organization for the year ended June 30, 2019 was adjusted as follows:

	After Adoption of ASU No. 2016-18	As Originally Presented	Effect of Change
Restricted deposit accounts	\$ -	\$ (470,458)	\$ 470,458
Net Cash Flows from Operating Activities	(3,212,722)	(3,683,180)	470,458
Net withdrawals (deposits to) from residual receipts, replacement reserve, and minimum capital investment	-	213,786	(213,786)
Net Cash Flows from Investing Activities	(109,795)	103,991	(213,786)
Net Change in Cash and Cash Equivalents	N/A	717,364	(717,364)
Cash and Cash Equivalents - Beginning of Year	N/A	1,180,571	(1,180,571)
Cash and Cash Equivalents - End of Year	N/A	1,897,935	(1,897,935)
Net Change in Cash and Cash Equivalents and Restricted Cash	974,036	N/A	974,036
Cash and Cash Equivalents and Restricted Cash - Beginning of Year	10,137,453	N/A	10,137,453
Cash and Cash Equivalents and Restricted Cash - End of Year	11,111,489	N/A	11,111,489

In 2020, the Organization adopted ASU No. 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* ("ASU No. 2017-07"). The standard requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered during the period. Other components of the net benefit cost, as defined, are required to be presented in the statement of activities separately from the service cost component and outside a subtotal of income from operations, if one is presented. It must be clear where the other components are reported. The Organization has adjusted the presentation of these consolidated financial statements accordingly. ASU No. 2017-07 has been applied retrospectively to all periods presented. See Note 12 for information regarding the impact to the consolidated financial statements during 2019.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 1 - Summary of Significant Accounting Policies (cont.)

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU No. 2014-09"). ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. Additional updates defer the effective date of ASU No. 2014-09, clarify the implementation guidance on principal versus agent considerations, clarify the identification of performance obligations and the licensing implementation guidance and affect other narrow aspects of Topic 606. Topic 606 (as amended) is effective for annual periods beginning after December 15, 2019 (2021). The changes may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. Management is currently assessing the effect that Topic 606 (as amended) will have on its consolidated financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU No. 2016-02") that amends the treatment for leases. The new accounting model for leases capitalizes all leases greater than twelve months, both capital and operating, as assets and liabilities on the consolidated statement of financial position. In October 2019 and June 2020, FASB deferred the implementation date one year for not-for-profit organizations that do not have conduit debt. The Organization will be required to apply the standard for annual periods beginning after December 15, 2021 (2023). Early adoption is permitted. Management is currently assessing the effect that ASU No. 2016-02 will have on its consolidated financial statements.

In August 2018, FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU No. 2018-13"). ASU No. 2018-13 modifies the disclosure requirements for fair value measurements in Topic 820, Fair Value Measurement. The amendments are based on the concepts in the FASB Concepts Statement, *Conceptual Framework for Financial Reporting - Chapter 8: Notes to Financial Statements*, which FASB finalized on August 28, 2018. ASU No. 2018-13 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2019 (2021). Early adoption is permitted. Management is currently assessing the effect that ASU No. 2018-13 will have on its consolidated financial statements.

In September 2020, FASB issued Accounting Standards Update No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* ("ASU No. 2020-07"). ASU No. 2020-07 improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The standard will be required to be applied retrospectively for annual periods beginning after June 15, 2021 (2022). Early adoption is permitted. Management is currently assessing the effect that ASU No. 2020-07 will have on its consolidated financial statements.

LUTHERAN SOCIAL SERVICES OF ILLINOIS AND SUBSIDIARY CORPORATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 2 - Management's Plan

For the years ended June 30, 2020 and 2019, the Organization experienced negative changes in net assets. The Organization closely monitors programs and their performance to budget. In an effort to improve operations the Organization did not renew some contracts. During 2020, contracts that were not renewed made up about \$275,000 of the deficit as of June 30, 2020. Additionally, during 2020, the Organization adopted ASU No. 2018-08 which reduced revenues by \$1.83 million related to no longer amortizing HUD grant revenues from conditional grant agreements and therefore contributing to the negative change in net assets. Management continues to evaluate the financial viability of programs experiencing deficits and will continue to take action to improve the financial position of the Organization.

Although the Organization experienced a negative change in net assets during 2020, positive cash flows from operating activities resulted. Improvements in cash flows from operating activities included obtaining a Paycheck Protection Program ("PPP") loan (Note 7), restructuring leases and contracts, and obtaining higher rate contracts. Additionally, the Director of Revenue Cycle Management improved collections from managed care organizations and reduced bad debt provisions. During 2019, the Organization had a negative cash flow from operating activities which was primarily due to a large contribution made towards the pension obligation.

The Organization also has a \$3 million line of credit and there was no outstanding balance as of June 30, 2020 and 2019, respectively (Note 6).

NOTE 3 - Fair Value Measurements

The Organization follows authoritative accounting guidance relating to fair value measurements, which provides a framework for measuring, reporting and disclosing fair value under generally accepted accounting principles. This guidance applies to all assets and liabilities that are measured, reported and/or disclosed on a fair value basis.

As defined in current authoritative guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization uses various valuation methods including the market, income and cost approaches. The assumptions used in the application of these valuation methods are developed from the perspective of market participants pricing the asset or liability. Inputs used in the valuation methods can be either readily observable, market corroborated, or generally unobservable inputs. Whenever possible the Organization attempts to utilize valuation methods that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation methods the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Assets and liabilities measured, reported and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 - Unobservable inputs that are not corroborated by market data.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 - Fair Value Measurements (cont.)

The table below presents the balances of assets at June 30, 2020 measured at fair value on a recurring basis by level within the hierarchy.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 6,896,116	\$ -	\$ -	\$ 6,896,116
Beneficial interest in funds held in trust	-	-	808,622	808,622
Other investments	-	-	148,794	148,794
Total assets measured at fair value	<u>\$ 6,896,116</u>	<u>\$ -</u>	<u>\$ 957,416</u>	7,853,532
Money market funds				<u>516,980</u>
Total investments				<u>\$ 8,370,512</u>

The table below presents the balances of assets at June 30, 2019 measured at fair value on a recurring basis by level within the hierarchy.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 6,375,505	\$ -	\$ -	\$ 6,375,505
Beneficial interest in funds held in trust	-	-	833,276	833,276
Other investments	-	-	40,000	40,000
Total assets measured at fair value	<u>\$ 6,375,505</u>	<u>\$ -</u>	<u>\$ 873,276</u>	7,208,781
Money market funds				494,712
Investments held for collateral - money market funds				<u>11,004,119</u>
Total investments				<u>\$ 18,747,612</u>

Mutual funds are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market.

Beneficial interest in funds held in trust consists of funds that the Organization is named as the beneficiary in which they are not the trustee of the assets are considered Level 3 items as the valuation is based on significant unobservable inputs that are not corroborated by market data.

Other investments consist of ownership of a non-publicly traded company and are considered a Level 3 item as the valuation is based on significant unobservable inputs that are not corroborated by market data.

The valuation of money market funds is determined on the cost basis. As a result they are excluded from the fair value hierarchy level disclosures.

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NOTE 3 - Fair Value Measurements (cont.)

Investments held for collateral were secured by a Foundation guaranty in a pledged asset account in 2019 to secure LSSI's line of credit. The assets consist of money market funds and are measured at cost. As a result, the assets are excluded from the fair value hierarchy level disclosures.

A determination to classify a financial instrument within Level 3 of the valuation hierarchy is based upon the significance of the unobservable factors to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components; accordingly, the gains and losses in the table below include changes in fair value due in part to observable factors that are included within the valuation methodology.

The changes in level 3 assets measured at fair value on a recurring basis are summarized below for the year ended June 30, 2020:

	Beneficial interest in funds held in trust	Other investments
Balance at June 30, 2019	\$ 833,276	\$ 40,000
Net realized and unrealized gains (losses) included in the change in net assets	(24,654)	108,794
Balance at June 30, 2020	\$ 808,622	\$ 148,794

The changes in level 3 assets measured at fair value on a recurring basis are summarized below for the year ended June 30, 2019:

	Beneficial interest in funds held in trust	Other investments
Balance at June 30, 2018	\$ 829,261	\$ 40,000
Net realized and unrealized gains included in the change in net assets	4,015	-
Balance at June 30, 2019	\$ 833,276	\$ 40,000

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NOTE 4 - Short-Term Investments and Investments Pledged as Collateral

Investments and related unrealized appreciation (depreciation) as of June 30, 2020 are summarized as follows:

	<u>Cost or Gift Value</u>	<u>Unrealized Appreciation (Depreciation)</u>	<u>Total Investments at Fair Value</u>
LSSI Funds:			
Mainstay Marketfield Fund	\$ 416,872	\$ 135,155	\$ 552,027
Foundation Funds:			
Schwab Money Market Fund	466,385	-	466,385
American Funds EuroPacific Growth Fund	770,352	53,573	823,925
Vanguard Emerging Markets Stock Index	219,144	(20,130)	199,014
Baird Aggregate Bond Fund	1,068,440	41,825	1,110,265
Vanguard Short Term Bond	404,317	10,799	415,116
Vanguard Total Stock Market Fund	<u>1,515,566</u>	<u>702,638</u>	<u>2,218,204</u>
Subtotal Foundation funds	<u>4,444,204</u>	<u>788,705</u>	<u>5,232,909</u>
Total short-term investments	<u>\$ 4,861,076</u>	<u>\$ 923,860</u>	<u>\$ 5,784,936</u>

Investments and related unrealized appreciation (depreciation) as of June 30, 2019 are summarized as follows:

	<u>Cost or Gift Value</u>	<u>Unrealized Appreciation (Depreciation)</u>	<u>Total Investments at Fair Value</u>
LSSI Funds:			
Mainstay Marketfield Fund	\$ 406,956	\$ 107,002	\$ 513,958
Foundation Funds:			
Schwab Money Market Fund	460,982	-	460,982
MaxSafe Money Market Fund - pledged as collateral	11,004,119	-	11,004,119
Dodge and Cox Fund	175,705	49,808	225,513
DFA Emerging Market Fund	664,660	91,417	756,077
Vanguard Short Term Bond	1,384,713	(7,188)	1,377,525
Vanguard Total Stock Market Fund	<u>1,327,289</u>	<u>562,978</u>	<u>1,890,267</u>
Subtotal Foundation funds	<u>15,017,468</u>	<u>697,015</u>	<u>15,714,483</u>
Total short-term investments and short-term investments pledged as collateral	<u>\$ 15,424,424</u>	<u>\$ 804,017</u>	<u>\$ 16,228,441</u>

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NOTE 5 - Investments - Held for Long-Term Purposes

Investments related to life annuity contracts and for the Andrew E. Seaver Trust Fund are stated at fair value. Investments and unrealized appreciation (depreciation) at June 30, 2020 are summarized as follows:

	Cost	Unrealized Appreciation (Depreciation)	Fair Value
Foundation investments related to life annuity contracts			
Money market funds	\$ 50,595	\$ -	\$ 50,595
Bond mutual funds	576,185	36,180	612,365
Equity mutual funds	910,060	55,089	965,149
Subtotal	1,536,840	91,269	1,628,109
ELCA Endowment Fund	833,276	(24,654)	808,622
Other investments			
Investment in partnership	40,000	108,794	148,794
Other mutual fund	51	-	51
Subtotal	40,051	108,794	148,845
Total Investments Held for Long-Term Purposes	\$ 2,410,167	\$ 175,409	\$ 2,585,576

Investments and unrealized appreciation at June 30, 2019 are summarized as follows:

	Cost	Unrealized Appreciation (Depreciation)	Fair Value
Foundation investments related to life annuity contracts			
Money market funds	\$ 33,730	\$ -	\$ 33,730
Bond mutual funds	694,818	26,832	721,650
Equity mutual funds	815,695	74,769	890,464
Subtotal	1,544,243	101,601	1,645,844
ELCA Endowment Fund	621,728	211,548	833,276
Other investments			
Investment in partnership	40,000	-	40,000
Other mutual fund	51	-	51
Subtotal	40,051	-	40,051
Total Investments Held for Long-Term Purposes	\$ 2,206,022	\$ 313,149	\$ 2,519,171

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NOTE 5 - Investments - Held for Long-Term Purposes (cont.)

The following schedules summarize the investment return, which includes interest on cash and cash equivalents, short-term and long-term investments, and its classification in the consolidated statements of activities:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividend income	\$ 165,433	\$ 29,632	\$ 195,065
Net realized and unrealized gains	260,716	36,292	297,008
Less: fees	(6,872)	-	(6,872)
Total investment return, net	\$ 419,277	\$ 65,924	\$ 485,201
	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividend income	\$ 175,915	\$ 30,136	\$ 206,051
Net realized and unrealized gains	203,921	42,179	246,100
Less: fees	(7,261)	-	(7,261)
Total investment return, net	\$ 372,575	\$ 72,315	\$ 444,890

NOTE 6 - Line of Credit

The Organization had a revolving line of credit agreement with Wintrust Bank for borrowings up to \$11,000,000. The line of credit was secured by a Foundation guaranty in a pledged asset account at Wintrust in a MaxSafe TM account. During 2020, the line of credit was paid down in full and the account was closed. As of June 30, 2019, the fair value of the assets in the pledged account was \$11,004,119, and the Organization's borrowing under the line was \$9,303,189. Interest on the line was calculated at LIBOR.

The Organization entered into a line of credit agreement on June 17, 2019 with Mission Investment Fund Evangelical Lutheran Church in America with availability up to \$3,000,000. The line of credit expires on June 1, 2021 and is renewable annually. The line of credit is secured by properties located at 5517 N. Kennmore Chicago, Illinois, and 4840 W. Byron St., Chicago, Illinois. The line of credit has an interest rate of 4.75% and interest is due monthly. As of June 30, 2020 and 2019, the Organization's borrowing under the line was \$0.

Interest expense on the lines of credit was \$159,563 and \$324,592 in 2020 and 2019, respectively.

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NOTE 7 - Refundable Advance

The Organization participated in and received funds under the Paycheck Protection Program ("PPP") through the Coronavirus Aid, Relief, and Economic Security ("CARES") Act of 2020 in the amount of \$9,985,367. The PPP is designed to provide a direct financial incentive for small businesses to keep their workers on the payroll. The program will forgive loan balances to the extent employees are kept on the payroll and the loan principal is used for payroll, rent, mortgage interest, or utilities during the eight or twenty-four week period following receipt. Any portion of the loan that is not forgiven will carry interest at 1% and is due to be paid back within two years. The first payment can be deferred until ten months after the end of the eight or twenty-four week covered period.

The Organization determined this was a conditional contribution when received and concluded that the requirements associated with this conditional contribution for forgiveness were not met prior to June 30, 2020. Therefore \$9,985,367 is presented as a refundable advance on the consolidated statements of financial position. If any amounts are not forgiven, the remaining amounts convert into a note and are payable in accordance with the terms previously noted. The Organization will be seeking full forgiveness. At June 30, 2020, the full PPP loan amount is included as a short-term liability on the consolidated statements of financial position as management expects the barriers to be overcome during fiscal year 2021.

NOTE 8 - Long-Term Debt

Long-term debt at June 30 consists of the following:

	2020	2019
Mortgages Payable:		
Mortgage payable to P/R Mortgage & Investment Corp. with monthly payments of \$64,828 including interest at 3.38%, until September 1, 2019. Starting October 1, 2019 payments were reduced to monthly payment of \$30,697 including interest at 3.38%. Any remaining principal or interest is due July 1, 2052. The mortgage payable is secured by a mortgage on the Project's building and land, is insured by HUD under Section 223(f) of the National Housing Act and is subject to a prepayment penalty through July 2027. The Project also had a HUD funded interest subsidy which offset interest expense until August 2019. (Salem Village III, Inc.)	\$ 7,207,919	\$ 7,398,469
Mortgage payable with P/R Mortgage & Investment Corp. in the amount of \$5,368,000. Monthly payments of \$23,607, including interest at 3.95% were required beginning September 1, 2013, balance due August 1, 2048. The mortgage payable is secured by a mortgage on the rental property, is insured by HUD under section 223(f) of the National Housing Act and is subject to a prepayment penalty through August 2023. (Batavia Council on Aging, Inc.)	4,810,107	4,901,431

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NOTE 8 - Long-Term Debt (cont.)

	2020	2019
Mortgages Payable:		
Mortgage payable to HUD with monthly payments of \$5,056, including interest at 7.63%, due July 1, 2021, secured by land and building and cannot be prepaid. (DeKalb Housing for the Handicapped, Inc.)	\$ 62,875	\$ 116,509
Total Mortgages Payable	12,080,901	12,416,409
Less: Current Maturities	(279,549)	(370,417)
Long-Term Portion of Mortgages Payable	11,801,352	12,045,992
Less: loan costs, net of accumulated amortization	(405,542)	(418,946)
Total Long-Term Portion of Mortgages Payable, Net	\$ 11,395,810	\$ 11,627,046

Legal and accounting fees, printing costs, and other expenses associated with the issuance of debt held by the Organization are included in mortgages payable and are amortized over the term of the mortgages on a straight line basis, which approximates the effective interest rate method. Amortization included in interest expense charged to the consolidated statements of activities for the years ended June 30, 2020 and 2019 was \$13,404. At June 30, 2020 and 2019, the remaining net amount of debt issuance costs was \$405,542 and \$418,946, respectively.

The following annual principal maturities of the above mortgages for the next five years and thereafter are as follows:

2021	\$	279,549
2022		234,860
2023		238,324
2024		247,112
2025		256,225
Thereafter		10,824,831
Total	\$	12,080,901

The Organization leased a building and certain equipment that qualify as capital leases during 2020 and 2019. At June 30, 2020 and 2019, the gross value of these assets was \$5,606,969 and \$5,526,277, respectively, and the related accumulated amortization was \$1,556,428 and \$1,113,401, respectively. The assets are included in property and equipment in the consolidated statements of financial position.

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NOTE 8 - Long-Term Debt (cont.)

The following is a schedule of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2020:

2021		\$	436,475
2022			437,640
2023			448,581
2024			459,795
2025			471,290
Thereafter			<u>3,223,215</u>
Total Future Minimum Lease Payments			5,476,996
Less: Interest			<u>(1,175,090)</u>
Present Value of Future Minimum Lease Payments			4,301,906
Less: Current Portion			<u>(258,611)</u>
Long-Term Capital Lease Obligations			<u>\$ 4,043,295</u>

Total interest expense including amortization of debt issuance costs and other bank fees was \$901,942 and \$998,573 in 2020 and 2019, respectively.

NOTE 9 - Capital Advance Agreements

The Organization has funded the construction of various housing projects through capital advance agreements with HUD, which provided for borrowings not to exceed \$64,779,300 at June 30, 2020 and 2019. The agreements are given to the HUD Projects in the form of mortgage notes and bear no interest and require no repayment provided that the housing to which it relates remains available for low-income elderly or developmentally disabled persons in accordance with the appropriate regulations. The amount drawn at June 30, 2020 and 2019 was \$64,779,300. If the Organization does not comply with the terms of the agreements, the entire capital advance amount plus interest would be required to be paid back to HUD. Grant revenue from the capital advance agreements was being recognized over the terms of the agreements on a straight-line basis through June 30, 2019. During the year ended June 30, 2019, the Organization recognized revenue of \$1,640,448 on these agreements. Effective July 1, 2019, the Organization adopted ASU No. 2018-08. As required by the standard, the Organization is no longer recognizing revenue over the terms of the agreements and will recognize the remaining revenue at the time all conditions are met by the Organization.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 9 - Capital Advance Agreements (cont.)

The conditional grant revenue recorded at June 30, 2020 and 2019 consists of conditional capital advance agreements for the following HUD Projects:

	Year of Expiration	Amount Drawn to Date	Grant Revenue Recognized through June 30, 2020	Conditional Grant Revenue
Assisi Homes-Downer Place, Inc.	2039	\$ 7,057,900	\$ 3,407,265	\$ 3,650,635
Our Savior's Senior Housing	2035	6,059,600	3,623,088	2,436,512
Tabor Lutheran Senior Housing, Inc.	2038	5,884,600	2,903,488	2,981,112
Rochelle Senior Housing, Inc.	2036	3,531,400	2,005,184	1,526,216
Freeport Senior Housing, Inc.	2033	3,197,300	2,055,402	1,141,898
Northwest Chicago Group Homes, Inc.	2034	1,483,800	938,217	545,583
Freeport Senior Housing II, Inc.	2042	3,039,200	1,261,458	1,777,742
Aurora Senior Housing, Inc.	2040	3,895,500	1,755,390	2,140,110
Victorian Woods Senior Living	2046	6,524,200	2,115,595	4,408,605
Spring Ridge Housing for Seniors, Inc.	2048	7,759,800	2,179,912	5,579,888
Rolling Meadows Senior Living, Inc.	2049	3,290,600	816,417	2,474,183
Deer Creek Manor, Inc.	2049	3,568,300	861,672	2,706,628
Fox Hill Senior Housing, Inc.	2053	9,487,100	1,383,550	8,103,550
Total		<u>\$ 64,779,300</u>	<u>\$ 25,306,638</u>	<u>\$ 39,472,662</u>

NOTE 10 - Federal Home Loan Grant Agreements

The Organization received grants totaling \$190,000 from One Mortgage Partners Corporation, a member of the Federal Home Loan Bank of Chicago, to partially fund the construction of two housing projects. The grants are in the form of mortgage notes which bear no interest and require no repayment provided that the housing to which they relate remains available for low-income elderly persons in accordance with the appropriate regulations and other grant requirements. If the Organization does not comply with the terms of the agreements, the entire grant would be required to be paid back to One Mortgage Partners Corporation. Grant revenue from the federal home loan agreements was being recognized over the terms of the agreements on a straight-line basis through June 30, 2019. During the year ended June 30, 2019, the Organization recognized revenue of \$12,672 on these agreements. Effective July 1, 2019, the Organization adopted ASU No. 2018-08. As required by the standard, the Organization is no longer recognizing revenue over the terms of the agreements and will recognize the remaining revenue at the time all conditions are met by the Organization. The conditional federal home loan grant agreements recorded at June 30, 2020 and 2019 are \$66,004.

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NOTE 11 - Assisted Living Conversion Grant Agreement

The Organization has funded the conversion of 56 units at Salem Village III, Inc. ("Salem Village") housing project to assisted living units through an Assisted Living Conversion Grant Agreement with HUD, which provided for borrowings not to exceed \$6,339,159. This agreement provides funding for physical costs of the conversion, legal, architectural and consulting fees, and temporary relocation costs, including vacancy losses. The agreement requires no principal and interest payments as long as Salem Village is used for approved purposes until July 1, 2039. The agreement is secured by the related building. If Salem Village does not comply with the terms of the agreement, the entire assisted living conversion grant amount would be required to be paid back to HUD.

Funding of \$514,240 was recognized in prior years relating to temporary relocation costs, including vacancy losses. Remaining grant revenue of \$5,824,919 from this agreement was being recognized over the term of the agreement on a straight-line basis through June 30, 2019. Revenue realized from the conversion grant for the year ended June 30, 2019 was \$180,156. Effective July 1, 2019, the Organization adopted ASU No. 2018-08. As required by the standard, the Organization is no longer recognizing revenue over the term of the agreement and will recognize the remaining revenue at the time all conditions are met by the Organization. The conditional assisted living conversion grant agreement recorded at June 30, 2020 and 2019 were \$3,602,995.

NOTE 12 - Pension Plan

Prior to January 1, 2010 the Organization was a participant in the retirement plan for employees of the United Way of Metropolitan Chicago and participating agencies, which covered substantially all employees hired prior to July 1, 2006. As of January 1, 2010, the Pension Equity Plan for employees of Lutheran Social Services of Illinois was separated from the United Way plan. This change had no effect on plan assets, liabilities, employee benefits or Organization funding requirements. The Organization uses a June 30 measurement date for the plan.

As of July 1, 2006, entry by new employees into the Organization's pension plan was frozen. All Organization employees who were hired prior to July 1, 2006 became eligible to participate in the pension plan in accordance with the terms of the plan, and all employees who were participants in the plan on July 1, 2006 shall continue as participants until their benefits are distributed in accordance with the terms of the plan.

During the year ended June 30, 2009, the Organization froze additional benefit accruals under the plan, resulting in a plan curtailment. Participants in the Organization's defined benefit plan became eligible for employer contributions under the Organization's defined contribution plan effective January 1, 2009.

Included in net assets without donor restrictions at June 30, 2020 and 2019 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized actuarial net losses of \$9,810,530 and \$10,717,441, respectively. The actuarial loss included in net assets without donor restrictions and expected to be recognized in net periodic pension costs during the fiscal year ending June 30, 2021 is \$766,118.

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NOTE 12 - Pension Plan (cont.)

The table below presents details about the Organization's plan including the changes in accumulated benefit obligations, the fair value of plan assets, and funded status as of June 30 (actuarial values of the benefit obligation were calculated as of June 30, 2020 and 2019, respectively).

	<u>2020</u>	<u>2019</u>
Change in benefit obligation		
Accumulated benefit obligation at beginning of year	\$ 36,904,519	\$ 35,801,520
Provision for expenses	400,000	600,000
Interest cost	1,048,148	1,365,895
Actuarial loss	1,733,210	1,796,496
Settlements**	(2,707,332)	-
Benefits paid	(2,368,832)	(2,264,775)
Administrative expenses paid	<u>(398,208)</u>	<u>(394,617)</u>
Accumulated benefit obligation at end of year	<u>\$ 34,611,505</u>	<u>\$ 36,904,519</u>

Since benefit accruals have been frozen, the projected benefit obligation is equal to the accumulated benefit obligation at June 30, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 32,589,313	\$ 25,572,548
Actual return on assets	2,434,282	2,581,157
Employer contribution	1,200,000	7,095,000
Settlements**	(2,707,332)	-
Benefits paid	(2,368,832)	(2,264,775)
Administrative expenses paid	<u>(398,208)</u>	<u>(394,617)</u>
Fair value of plan assets at end of year	<u>\$ 30,749,223</u>	<u>\$ 32,589,313</u>
Funded status of the plan	<u>\$ (3,862,282)</u>	<u>\$ (4,315,206)</u>

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NOTE 12 - Pension Plan (cont.)

	<u>2020</u>	<u>2019</u>
Components of net periodic benefit costs		
Provision for expense	\$ 400,000	\$ 600,000
Interest cost	1,048,148	1,365,895
Expected return on plan assets	(1,644,084)	(1,451,355)
Recognized actuarial loss	<u>1,072,520</u>	<u>807,682</u>
Net periodic benefit costs	876,584	1,322,222
Cost for settlements**	<u>777,405</u>	<u>-</u>
Total net periodic benefit costs	<u>\$ 1,653,989</u>	<u>\$ 1,322,222</u>

** Settlements occurred during 2020 due to the amount of lump sum payments provided to plan participants exceeding the service and interest costs. The total effect of the settlements on the projected benefit obligation and fair value of plan assets was \$2,707,332. A portion of the effect of the settlements must be recognized within net periodic benefit costs. The cost for settlements recognized within net periodic pension cost during 2020 was \$777,405. There were no settlements in 2019.

In 2020, the Organization adopted ASU No. 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The standard requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered during the period. Service cost in 2020 and 2019 was \$0. The other components of the net periodic benefit cost are \$1,653,989 and \$1,322,222 in 2020 and 2019, respectively. The other components of the net periodic pension cost are included in increase in actuarial pension costs on the consolidated statements of activities.

The underfunded status of the plan of \$3,862,282 and \$4,315,206 at June 30, 2020 and 2019, respectively, is recognized in the accompanying consolidated statements of financial position as long-term liability for pension benefits.

The following are weighted average assumptions used to determine benefit obligations at June 30:

	<u>2020</u>	<u>2019</u>
Discount rate	2.25%	3.20%

There were no participant contributions made to the plan during the years ended June 30, 2020 and 2019.

The following are weighted-average assumptions used to determine net periodic benefit cost for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Discount rate	3.05%	4.00%
Expected return on plan assets	5.40%	5.40%

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NOTE 12 - Pension Plan (cont.)

The Organization's expected long-term return on plan assets assumption is based on a periodic review and modeling of the plan's asset allocation over a long-term horizon. Expectations of returns for each asset class are the most important of the assumptions used in the review and modeling and are based on comprehensive reviews of historical data and economic/financial market theory. The expected long-term rate of return on assets was selected from within the reasonable range of rates determined by historical real returns for the asset classes covered by the investment policy.

The Organization's plan assets at June 30, 2020, by asset category are as follows:

	Level 1	Level 2	Level 3	Total
Mutual funds measured at fair value	<u>\$ 28,096,787</u>	<u>\$ -</u>	<u>\$ -</u>	\$ 28,096,787
Cash and money market funds				<u>2,652,436</u>
Total investments				<u>\$ 30,749,223</u>

The Organization's plan assets at June 30, 2019, by asset category are as follows:

	Level 1	Level 2	Level 3	Total
Mutual funds measured at fair value	<u>\$ 24,591,288</u>	<u>\$ 3,218,622</u>	<u>\$ -</u>	\$ 27,809,910
Cash and money market funds				<u>4,779,403</u>
Total investments				<u>\$ 32,589,313</u>

Mutual funds - These investments consist of Vanguard Long-Term Investment Grade Fund, Vanguard Intermediate Term Corporate Fund, and Vanguard Short-Term Corporate Fund, American Funds Euro Pacific Growth Fund, and DFA Emerging Markets Value Fund and are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market. In 2019, the Organization was also invested in the Comerica U.S. All Cap Composite Equity Index Fund, which is not actively traded and is considered a Level 2 item.

The valuation of cash and money market funds are determined using cost. As a result, they are excluded from the fair value hierarchy level disclosures.

The Organization's investment policy includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines consider a broad range of economic conditions.

The objectives of the target allocations are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the plan's actuarial assumptions, and achieve asset returns that are competitive with like institutions employing similar investment strategies.

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NOTE 12 - Pension Plan (cont.)

The investment policy is periodically reviewed by the Organization. The policy is established and administered in a manner so as to comply at all times with applicable government regulations.

The estimated net periodic benefit cost for 2021 is:

Provision for expense	\$ 400,000
Interest cost	741,086
Expected return on plan assets	(1,538,719)
Amortization of net loss	<u>1,163,751</u>
Estimated net periodic benefit costs	<u>\$ 766,118</u>

The following pension benefit payments are expected to be paid:

2021	\$ 3,348,658
2022	2,379,981
2023	2,248,905
2024	2,267,882
2025	2,350,120
2026-2031	10,618,224

The Organization plans to make contributions of \$1,200,000 to the plan in fiscal year 2021.

The discount rate and expected rate of return on plan assets are critical assumptions which significantly affect pension accounting. Even relatively small changes in these rates would significantly change the recorded pension expense and accrued liability. The expected return on plan assets is computed based on an asset valuation method which recognizes gains/losses over a period of five years. Management believes the discount rate and expected rate of return on plan assets used in determining its year-end pension accounting are reasonable based on currently available information. However, it is at least reasonably possible that these assumed rates will be revised in the near term, based on future events and changes in circumstances.

NOTE 13 - Defined Contribution Retirement Plan

The Organization has adopted a defined contribution retirement plan ("Plan") under Internal Revenue code section 403(b). All Organization employees (except temporary employees) who have completed one year of service are eligible to participate in the Plan. All such eligible employees, who are at least age 21, may elect to make contributions to the Plan through salary deductions. There is no minimum service requirement to make employee contributions to the Plan. Under the Plan, the Organization may make a discretionary annual employer contribution to eligible participants. There was no Organization contribution to the Plan for the years ending June 30, 2020 and 2019.

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NOTE 14 - Worker's Compensation Trust

The Organization has a self-funded Worker's Compensation Trust (the "Trust") which is organized and operated under the provisions of the Illinois Religious and Charitable Risk Pooling Trust Act. The trustees of the Trust are appointed by the Organization.

The Organization makes monthly contributions to the Trust. The Organization has recorded a liability for unpaid contributions, which includes unpaid claims and claims incurred but not reported, of \$718,856 and \$727,518 at June 30, 2020 and 2019, respectively. The estimated liability is classified as accounts payable and other accrued expenses on the consolidated statements of financial position.

NOTE 15 - Accrued Salaries and Wages

Accrued salaries and wages include accrued vacation pay of \$2,306,572 and \$1,858,580 at June 30, 2020 and 2019, respectively.

NOTE 16 - Accrued Unemployment

The Organization pays for Illinois unemployment compensation on a claims-made basis. At June 30, 2020 and 2019, \$110,677 and \$32,755, respectively, was accrued as the estimated liability for these claims. These amounts are classified as accounts payable and other accrued expenses on the consolidated statements of financial position.

NOTE 17 - Net Assets

Net assets without donor restrictions at year end are composed of:

	2020	2019
Designated for endowment fund	\$ -	\$ 13,347,263
Undesignated (deficit)	8,235,351	(3,533,357)
Totals	\$ 8,235,351	\$ 9,813,906

In May 2020, the Board of Trustees authorized the release of all Board designated endowment funds (see Note 18).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 17 - Net Assets (cont.)

Net assets have been received to be held in perpetuity for several programs. The amounts of these net assets as of June 30 are shown below by program:

	2020	2019
Adoption services	\$ 131,736	\$ 131,736
Behavioral health	16,248	16,248
Child and adolescent	203,223	203,223
Children and disabled individuals	302,802	302,802
Children and older adults	1,191,190	1,191,190
Endowment for general use	547,693	546,194
Leadership and awards	116,090	116,090
Older adults	267,875	267,875
Other programs	5,576	5,575
Services outside metropolitan Chicago	47,361	47,361
Total Net Assets With Donor Restrictions to be Held in Perpetuity	\$ 2,829,794	\$ 2,828,294

The income from these assets must be used in support of the aforementioned programs and purposes.

Net assets with donor restrictions are available for the following programs or purposes as directed by the donors as of June 30:

	2020	2019
Adoption services	\$ 54,357	\$ 51,686
Administration	306,793	306,793
Behavioral health	129,441	150,791
Child and adolescent	266,807	182,359
Children and disabled individuals	631,665	618,254
Children and older adults	593,625	568,012
Disaster relief	853,878	916,121
Leadership and awards	117,539	114,394
Older adults	130,506	152,300
Other programs	276,944	320,256
Total Net Assets With Time and/or Purpose Restrictions	\$ 3,361,555	\$ 3,380,966

The total net assets with donor restrictions was \$6,191,349 and \$6,209,260 at June 30, 2020 and 2019, respectively.

LUTHERAN SOCIAL SERVICES OF ILLINOIS AND SUBSIDIARY CORPORATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 18 - Endowment Funds

The endowment is held at the Foundation. The Foundation follows current authoritative accounting guidance relating to endowments of not-for-profit organizations and enhanced disclosures for all endowment funds. Guidance is provided on classifying net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). UPMIFA governs the treatment for endowment funds. A key component of the guidance and UPMIFA is a requirement to classify the portion of a donor-restricted endowment fund that is not yet appropriated as net assets with donor restrictions until appropriated for expenditure.

The Foundation's endowment consists of approximately 40 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees of the Foundation to function as endowment. Any contributions with donor restrictions received from donors are included in the donor restricted endowment fund. Any other named fund or special purpose fund that donors have established are included in board-designated endowment and any restrictions are reflected in the endowment. As required by accounting principles generally accepted in the United States of America ("GAAP"), net assets associated with endowment funds, including funds designated by the Foundation's Board of Trustees to function as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

In 2019, the Foundation considered the funds due from LSSI to be a part of the endowment. The Foundation had advanced LSSI a significant portion of the board designated endowment funds without interest. In 2020, the Foundation's Board released the designated portion of the endowment funds and advanced LSSI significant additional funds. The amount loaned to LSSI was \$12,391,933 and \$2,200,391 at June 30, 2020 and 2019, respectively, and the balance is eliminated on the consolidated financial statements. A significant portion of the Foundation's investments were pledged as collateral on the Organization's line of credit (Note 6).

Interpretation of Relevant Law -The Foundation classifies as net assets with donor restrictions (a) the original value of the gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

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NOTE 18 - Endowment Funds (cont.)

Endowment net asset composition by type of fund consists of the following as of June 30, 2020:

	2020			
	Without Donor Restrictions	With Donor Restrictions		Total
		Time or Purpose	Held in Perpetuity	
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 1,082,284</u>	<u>\$ 2,829,794</u>	<u>\$ 3,912,078</u>

Endowment net asset composition by type of fund consists of the following as of June 30, 2019:

	2019			
	Without Donor Restrictions	With Donor Restrictions		Total
		Time or Purpose	Held in Perpetuity	
Donor-restricted endowment funds	\$ -	\$ 1,039,805	\$ 2,828,294	\$ 3,868,099
Board-designated endowment funds	13,347,263	1,981,200	-	15,328,463
Total endowment funds	<u>\$ 13,347,263</u>	<u>\$ 3,021,005</u>	<u>\$ 2,828,294</u>	<u>\$ 19,196,562</u>

Changes in endowment net assets for the years ended June 30, 2020 are as follows:

	2020			
	Without Donor Restrictions	With Donor Restrictions		Total
		Time or Purpose	Held in Perpetuity	
Endowment net assets, June 30, 2019	<u>\$ 13,347,263</u>	<u>\$ 3,021,005</u>	<u>\$ 2,828,294</u>	<u>\$ 19,196,562</u>
Investment return				
Investment income, net	111,821	29,632	-	141,453
Net appreciation realized and unrealized	<u>102,527</u>	<u>36,292</u>	<u>-</u>	<u>138,819</u>
Total investment return	214,348	65,924	-	280,272
Contributions*	382,872	-	1,500	384,372
Appropriation for expenditure	-	(75,582)	-	(75,582)
Board release of designated endowment without donor restrictions	(13,944,483)	-	-	(13,944,483)
Board release of designated endowment with donor restrictions**	<u>-</u>	<u>(1,929,063)</u>	<u>-</u>	<u>(1,929,063)</u>
Endowment net assets, June 30, 2020	<u>\$ -</u>	<u>\$ 1,082,284</u>	<u>\$ 2,829,794</u>	<u>\$ 3,912,078</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 18 - Endowment Funds (cont.)

Changes in endowment net assets for the year ended June 30, 2019 are as follows:

	2019			Total
	Without Donor Restrictions	With Donor Restrictions		
	Time or Purpose	Held in Perpetuity		
Endowment net assets, June 30, 2018	\$ 13,579,004	\$ 3,023,464	\$ 2,828,294	\$ 19,430,762
Investment return				
Investment income, net	119,030	30,136	-	149,166
Net appreciation realized and unrealized	<u>147,451</u>	<u>42,179</u>	<u>-</u>	<u>189,630</u>
Total investment return	266,481	72,315	-	338,796
Contributions*	435,323	-	-	435,323
Appropriation for expenditure	<u>(933,545)</u>	<u>(74,774)</u>	<u>-</u>	<u>(1,008,319)</u>
Endowment net assets, June 30, 2019	<u>\$ 13,347,263</u>	<u>\$ 3,021,005</u>	<u>\$ 2,828,294</u>	<u>\$ 19,196,562</u>

*Contributions include other deposits into the Board-designated endowment funds of \$89,218 and \$155,909 in 2020 and 2019, respectively.

**At June 30, 2019, the endowment included funds received from donors with restrictions for programs and purposes as directed by the donors, which were not required to be held in perpetuity. The Board of Trustees had designated these funds to be included within the endowment. In May 2020, the Board of Trustees authorized the release of all Board designated endowment funds including donor restricted funds for programs and purposes as directed by the donors of \$1,929,063. At June 30, 2020, the donor restricted funds that were released from the Board designated endowment are included in net assets with restrictions. These funds will be released from donor restrictions when the donor imposed-stipulations are met.

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in net assets with donor restrictions. There were no funds with deficiencies at June 30, 2020 and 2019. These deficiencies would result from unfavorable market fluctuations that occur after the investment of new contributions to be held in perpetuity. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in net assets with donor restrictions.

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NOTE 18 - Endowment Funds (cont.)

Return Objectives and Risk Parameters - The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream for funding programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the governing board, the endowment assets are invested in a manner that is intended to produce results that exceed 5% annually while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Foundation has a policy of appropriating for distribution each year 4-5% of its endowment fund's average fair value of applicable assets over the lower of the prior 4 or 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is appropriated. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of approximately 3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 19 - Lease Agreements

The Organization has entered into lease agreements for land and buildings, under which rental expense for 2020 and 2019 was \$1,351,485 and \$1,506,140, respectively.

Minimum future rental commitments for all operating leases in effect as of June 30, 2020 are summarized as follows:

2021	\$	1,252,250
2022		1,093,909
2023		704,554
2024		393,678
2025		248,389
Thereafter		<u>872,325</u>
Total	\$	<u>4,565,105</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 19 - Lease Agreements (continued)

Significant clauses contained in the lease agreements include the following:

- Escalation clauses not exceeding 5% on any given lease,
- Sharing of operation and maintenance costs,
- Ability to cancel a lease if funding for the related program is insufficient,
- Various options to extend the lease term, and
- Liability insurance requirements.

Minimum lease payments exclude rentals under renewal options which, as of June 30, 2020, are not reasonably assured of being exercised.

NOTE 20 - Contingencies

The Organization is a defendant in various lawsuits. The final results of such litigation cannot be determined at this time. In the opinion of management, any ultimate liability in these lawsuits would either be within insurance limits or would have no adverse effect on the consolidated financial statements.

As an employer, the Organization is subject to allegations of violation of various laws relating to employment. The Organization's attorneys have advised management that, relative to currently pending complaints, no judgment can be formed as to the likelihood of an unfavorable outcome. Management expects no material liability will be incurred as a result of these complaints.

The grants received by the Organization are subject to audit, and the Organization could become liable for any expenditures disallowed upon audit. Management believes, however, that such disallowance, if any, would not be material.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 21 - Certain Concentrations

Receivables

As of June 30, the Organization's accounts receivable include amounts due from various sources as follows:

	<u>2020</u>	<u>2019</u>
Illinois Department of Healthcare and Family Services	\$ 714,817	\$ 1,048,111
Illinois Department of Children and Family Services	6,693,385	4,727,163
Illinois Department on Aging	38,612	65,031
Illinois Department of Human Services	2,183,435	2,125,495
Chicago Department of Human Services	-	377,299
Managed HUD Projects	348,362	310,432
Medicare	55,899	142,097
Private Pay - Other Client Fees	596,869	482,884
Insurance - Managed Care	2,537,604	4,166,217
Other	<u>195,038</u>	<u>125,095</u>
Total	13,364,021	13,569,824
Less: Allowance for doubtful accounts	<u>(2,137,095)</u>	<u>(2,357,809)</u>
Accounts receivable, net of allowance	<u>\$ 11,226,926</u>	<u>\$ 11,212,015</u>

The Organization receives a significant portion of its revenue and other support from several government units. If these government units terminated their support of the Organization, the Organization's ability to provide the services described in Note 1 could be significantly reduced.

Concentrations of Credit

The Organization maintains its cash deposits at several financial institutions which, at times, may exceed federally insured limits of \$250,000. The Organization has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on these deposits.

NOTE 22 - Subsequent Events

The Organization has evaluated subsequent events through November 10, 2020, which is the date that the consolidated financial statements were available to be issued, for events requiring disclosure or recording in the consolidated financial statements.

On October 8, 2020 the line of credit (Note 6) with Mission Investment Fund Evangelical Lutheran Church was increased from \$3,000,000 to \$6,250,000. The change in the agreement includes a decreased interest rate from 4.75% to 4.25%, two additional properties to secure the line of credit (675 Varsity Drive, Elgin, Illinois and 1640 W. Morse, Chicago, Illinois) and a new expiration date of October 1, 2021. All other terms remained the same.

OTHER INDEPENDENT AUDITORS' REPORTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Lutheran Social Services of Illinois
Des Plaines, Illinois

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Lutheran Social Services of Illinois (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities, cash flows and functional expenses and directly related program services revenue for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 10, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly US, LLP

Baker Tilly US, LLP (Formerly known as Baker Tilly Virchow Krause, LLP)
Milwaukee, Wisconsin
November 10, 2020

REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITORS' REPORT

Board of Directors
Lutheran Social Services of Illinois
Des Plaines, Illinois

Report on Compliance for the Major Federal Program

We have audited Lutheran Social Services of Illinois' (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2020. The Organization's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The Organization's basic consolidated financial statements include the operations of subsidiaries of the Organization, as identified in the notes to the schedule of expenditures of federal awards, which expended federal awards that are not included in the Organization's schedule of expenditures of federal awards during the year ended June 30, 2020. Our audit, described below, did not include the operations of those entities because they have separate audits under the Uniform Guidance or do not require an audit under the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Baker Tilly US, LLP, trading as Baker Tilly, is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities.

Opinion on the Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2020-001. Our opinion on the major federal program is not modified with respect to this matter.

The Organization's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Baker Tilly US, LLP

Baker Tilly US, LLP (Formerly known as Baker Tilly Virchow Krause, LLP)
Milwaukee, Wisconsin
March 29, 2021

SUPPLEMENTARY INFORMATION

**LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2020

Federal Awards Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures	Subrecipient Awards
U.S. DEPARTMENT OF AGRICULTURE				
Passed through the Illinois State Board of Education				
School Breakfast Program	10.553	05-016-120P-00	\$ 4,943	\$ -
National School Lunch Program	10.555	05-016-120P-00	<u>8,070</u>	<u>-</u>
Total of Child Nutrition Cluster			<u>13,013</u>	<u>-</u>
Passed through the Illinois State Board of Education				
Child and Adult Care Food Program	10.558	05-016-120P-00	<u>4,114</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>17,127</u>	<u>-</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through the Illinois Department of Children and Family Services				
Promoting Safe & Stable Families	93.556	013005-905-9	49,782	-
Promoting Safe & Stable Families	93.556	013005-905-0	<u>218,535</u>	<u>-</u>
Total of CFDA 93.556			<u>268,317</u>	<u>-</u>
Passed through City of Chicago Department of Family and Support Services				
Head Start	93.600	32008	21,587	-
Head Start	93.600	33351	<u>318,578</u>	<u>-</u>
Total of Head Start Cluster			<u>340,165</u>	<u>-</u>
Passed through the Illinois Department of Human Services				
Social Services Block Grant	93.667	FCSXR01028	201,109	-
Social Services Block Grant	93.667	FCSYR01028	<u>38,467</u>	<u>-</u>
Total CFDA 93.667			<u>239,576</u>	<u>-</u>
Passed through the Illinois Department of Human Services - Office of Alcoholism and Substance Abuse				
Opioid STR	93.788	43CYC03592	<u>93,345</u>	<u>-</u>
Passed through the Illinois Department of Human Services				
Block Grants for Community Mental Health Services	93.958	45CYB00425	74,845	-
Block Grants for Community Mental Health Services	93.958	45CYB00426	<u>156,369</u>	<u>-</u>
Total CFDA 93.958			<u>231,214</u>	<u>-</u>

See accompanying notes to schedule of expenditures of federal awards.

**LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
For the Year Ended June 30, 2020

Federal Awards Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures	Subrecipient Awards
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)				
Passed through the Illinois Department of Human Services - Office of Alcoholism and Substance Abuse				
Block Grants for Prevention and Treatment of Substance Abuse **	93.959	43CYC00181	\$ 1,155,435	\$ -
Block Grants for Prevention and Treatment of Substance Abuse **	93.959	43CYZ03220	<u>178,944</u>	<u>-</u>
Total CFDA 93.959			<u>1,334,379</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>2,506,996</u>	<u>-</u>
U.S. DEPARTMENT OF THE TREASURY				
Direct				
COVID-19 - Coronavirus Relief Fund	21.019	N/A	<u>11,171</u>	<u>-</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE				
Passed through the Illinois Department of Public Health				
AmeriCorps	94.006	97380011G	<u>29,796</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,565,090</u>	<u>\$ -</u>

** Indicates program tested as a major program in 2020.

LUTHERAN SOCIAL SERVICES OF ILLINOIS AND SUBSIDIARY CORPORATIONS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended June 30, 2020

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "schedule") includes the federal award activity of Lutheran Social Services of Illinois (the "Organization"), except as noted below, under programs of the federal government for the year ended June 30, 2020. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

Expenditures for the following consolidated subsidiaries of the Organization are not included to meet the requirements of the cost principles contained in the Uniform Guidance because they have separate audits or are not required to have an audit under Uniform Guidance:

Assisi Homes - Downer Place, Inc.	Luther Center, Inc.
Aurora Senior Housing, Inc.	Matins, Inc.
Batavia Council on Aging, Inc.	Northwest Chicago Group Homes, Inc.
The Cornerstone Foundation, Inc.	Our Savior's Senior Housing
Deer Creek Manor, Inc.	Rochelle Senior Housing, Inc.
Dekalb Housing for the Handicapped, Inc.	Rolling Meadows Senior Living, Inc.
Forsberg Christian Retirement Center, Inc.	Salem Village III, Inc.
Fox Hill Senior Housing, Inc.	Spring Ridge Housing for Seniors, Inc.
Freeport Senior Housing, Inc.	Tabor Lutheran Senior Housing, Inc.
Freeport Senior Housing II, Inc.	Vesper Management Corporation
LSSI Rockford Property, Inc.	Victorian Woods Senior Living, Inc.

Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Change in Basis of Accounting

In previous years, the Organization prepared its schedule using the cash basis of accounting, which did not provide materially different results from those using the accrual basis of accounting. This year, however, certain funders that had previously communicated federal award funding annually on a cash basis now report on the accrual basis. Accordingly, the accompanying 2020 schedule is prepared using the accrual basis of accounting. As part of the change in basis of accounting, the schedule includes expenditures of \$198,010 that were incurred in 2019 and paid in 2020, thus excluded from the 2019 schedule under the cash basis of accounting.

Indirect Cost Rate

The Organization has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Federal Loan Programs

The awards presented in the schedule do not include any federal loans administered by the Organization.

**LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
For the Year Ended June 30, 2020

Non-Cash Assistance

The Organization did not receive any non-cash federal awards.

Federal Insurance

The awards presented in the schedule do not include any federal insurance in effect during fiscal year 2020.

**LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2020

Section I: Summary of Auditors' Results

Financial Statements

Type of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP:	unmodified		
Internal control over financial reporting:			
Material weakness(es) identified?	_____ yes	___X___ no	none reported
Significant deficiency(ies) identified?	_____ yes	___X___ reported	
Noncompliance material to financial statements noted?	_____ yes	___X___ no	

Federal Awards

Internal control over major federal programs:			
Material weakness(es) identified?	_____ yes	___X___ no	none reported
Significant deficiency(ies) identified	_____ yes	___X___ reported	
Type of auditors' report issued on compliance for major federal programs:	unmodified		
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	___X___ yes	_____ no	

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish between Type A and Type B programs	\$ 750,000	
Auditee qualified as low-risk auditee?	___X___ yes	_____ no

**LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended June 30, 2020

Section II: Financial Statement Findings

There were no findings.

Section III: Federal Findings and Questioned Costs

2020-001

Agency: U.S. Department of Health and Human Services passed through City of Chicago Department of Family and Support Services

CFDA Number and Program Name: 93.600 - Head Start

Criteria: The grantor requires the Organization to comply with the requirements of the program which include the requirement that 10% of funded Head Start enrollment be provided to children with disabilities.

Statement of Condition: The Organization did not comply with the requirement that 10% of funded Head Start enrollment must be provided to children with disabilities. The Organization was unable to meet the 10% requirement.

Questioned Costs: The amount of questioned costs cannot be determined.

Context: Management identified that the Organization was not in compliance. As a result, management submitted reports to the funder communicating that the requirement was not met in the prior fiscal year and requested a waiver. The waiver was not granted by the agency. No waiver was requested for 2020 due to the contract ending November 30, 2019.

Effect: The Organization was not in compliance with the earmarking requirement of the grant for a portion of the fiscal year.

Cause: The Organization was not able to enroll enough participants with disabilities to meet the 10% requirement for a portion of the year.

This is a repeat finding (prior years 2019-001, 2018-001, 2017-001, and 2016-001).

Recommendation: Management continued to monitor its compliance with the requirement from July 1, 2019 through the end of the contract (November 30, 2019). We recommend that management be aware of compliance requirements prior to entering new agreements with all funders and the Organization's ability to be in compliance with those requirements.

Management's Response: As of June 30, 2019, management determined that the Organization will no longer operate the Head Start program. The Organization completed the remainder of the contract which ended November 30, 2019.

**LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2020

Section III: Federal Findings and Questioned Costs (cont.)

2019-001

Agency: U.S. Department of Health and Human Services passed through City of Chicago Department of Family and Support Services

CFDA Number and Program Name: 93.600 - Head Start

Criteria: The grantor requires the Organization to comply with the requirements of the program which include the requirement that 10% of funded Head Start enrollment be provided to children with disabilities.

Statement of Condition: The Organization did not comply with the requirement that 10% of funded Head Start enrollment must be provided to children with disabilities. In December 2017, the contract for the period December 2017 through November 2018 was amended and the Organization did exceed the 10% requirement. In December 2018, the contract was renewed to accommodate larger enrollment, and the Organization was unable to meet the 10% requirement for the remainder of the fiscal year.

Questioned Costs: The amount of questioned costs cannot be determined.

Context: Management identified that the Organization was not in compliance. As a result, management submitted reports to the funder communicating that the requirement was not met and requested a waiver. The waiver was not granted by the agency.

Effect: The Organization was not in compliance with the earmarking requirement of the grant for a portion of the fiscal year.

Cause: The Organization was not able to enroll enough participants with disabilities to meet the 10% requirement for a portion of the year.

This is a repeat finding (prior years 2018-001, 2017-001, and 2016-001).

Recommendation: We recommend management continue to monitor its compliance with the requirement through the end of the contract.

Management's Response: As of June 30, 2019, management determined that the Organization will no longer operate the Head Start program. The Organization completed the remainder of the contract which ended November 30, 2019. The business manager of the Head Start program is responsible for the wind down and corrective action.

This finding has been repeated as finding 2020-001.

**LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (continued)
For the Year Ended June 30, 2020

Section III: Federal Findings and Questioned Costs (cont.)

2019-002

Agency: U.S. Department of Health and Human Services passed through Illinois Department of Human Services - Office of Alcoholism and Substance Abuse

CFDA Number and Program Name: 93.959 - Block Grants for Prevention and Treatment of Substance Abuse

Criteria: The Uniform Guidance requires that the Organization have controls in place to ensure the Organization complied with the compliance requirements of the contract. Specifically, earmarking controls should monitor compliance with thresholds of budgeted line items, and reporting controls should ensure submitted reports are accurate and agree to the underlying accounting records.

Statement of Condition: The Organization did not have an employee perform a review at the appropriate level of detail of the cost reports to ensure the Organization was in compliance with earmarking and reporting requirements.

Questioned Costs: There were no questioned costs.

Context: The Organization submits twelve monthly reports regarding compliance with earmarking and reporting.

Effect: We identified certain areas within the control system surrounding compliance that could lead to noncompliance not being immediately identified.

Cause: A senior manager reviewed the financial results of the addiction prevention program, however, this review was not at the necessary detailed level to verify compliance with all the grants requirements.

Recommendation: We recommend that management review current internal controls surrounding report preparation and consider implementing a control where an employee performs a detailed review, including monitoring compliance with thresholds of budgeted line items and that the reports are accurate and agree to the underlying accounting records prior to submission of the reports.

Management's Response: The Organization's management reviewed internal controls surrounding report preparation and implemented a control by which an employee will review monthly cost reports to verify the Organization is in compliance with the earmarking and reporting requirements prior to submission of those cost reports. The business manager and director of business services are responsible for this corrective action.

Management has corrected this finding.

Summary Schedule of Prior Year Audit Findings
For Year Ended June 30, 2019

Finding 2019-001

93.600 Head Start

– The organization did not comply with requirement that 10% of funded Head Start enrollment must be provided to children with disabilities from July 1, 2019 – November 30 2019.

Status – In progress

Status Update: November 5, 2020

LSSI's Head Start program was committed to providing care and services to all eligible families and children, including those with disabilities. The follow-up to the submitted plan to address the enrollment deficiency of 10% of children with disabilities was as follows:

- ✓ In September of 2017 DFSS made a city wide slot reduction. This slot reduction began in the LSSI contract starting December 1, 2017. LSSI was in compliance under the contract from December 1, 2017 through November 30, 2018 after the slot reduction.
- ✓ For the contract period beginning December 1, 2018 the program was again unable to meet the disability enrollment requirement. The program facilitator requested a disability waiver from the City of Chicago however it was not granted.
- ✓ As of June 30, 2019 LSSI determined it would no longer operate Head Start programs. The organization continued to operate the remainder of the contract in conjunction with its partner agency Asian Human Services.
- ✓ As of November 30, 2019 the organization did not renew the Head Start contract with the City of Chicago.

Prepared by:

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Summary Schedule of Prior Year Audit Findings
For Year Ended June 30, 2019

Finding 2019-002

93.959 Block Grants for Prevention and Treatment of Substance Abuse

– The organization did not comply with the Uniform Guidance requirement to have controls over the earmarking and reporting performance to ensure expenditures do not exceed certain thresholds of the budgeted line items and to verify that reports are accurate and agree to underlying accounting records.

Status – Corrective Action is Complete

Completion Date – December 31, 2019

Status Update: November 5, 2020

LSSI is committed to meeting our compliance obligations. The follow-up to the submitted plan is as follows:

- LSSI management incorporated new internal controls surrounding report preparation and review.
- LSSI business managers prepare monthly cost reports in compliance with the earmarking and reporting requirements.
- LSSI directors of business services review those monthly cost reports, verifying compliance with earmarking and reporting requirements, prior to submission.
- Once review is completed and approval documented, monthly cost reports are submitted.

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Summary Schedule of Audit Findings
For Year Ended June 30, 2020

Finding 2020-001

93.600 Head Start

– The organization did not comply with requirement that 10% of funded Head Start enrollment must be provided to children with disabilities from July 1, 2019 – November 30, 2019.

Status and Completion Date – The contract ended November 30, 2019

Corrective Action – LSSI was not able to achieve the 10% funding provision for children with disabilities requirement. As of June 30, 2019 the majority of the program was closed and the only remaining portion of the Head Start program was being serviced by our partner agency, Asian Human Services (AHS). LSSI in conjunction with the City of Chicago and its partner agency AHS worked together to set up a transition plan to closed the program by November 30, 2019. As the program prepared to close, LSSI strived to do so in a manner that met contract requirements but with an understanding that the focus of any remaining program staff was to wrap-up outstanding services. The business manager of the Head Start program was responsible for the wind down and corrective action.

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